

Missouri State Employees'
Retirement System

*A Component Unit of
the State of Missouri*

Summary Annual Financial Report

Fiscal Year Ended June 30, 2000

 MOSERS

Letter from MOSERS' Board of Trustees



Seated left to right: Representative Richard Franklin, Jacquelyn White - Vice Chairman

Standing left to right: Richard Hanson, Joseph Bednar, Thomas Hodges - Chairman,

Representative Bill Skaggs, Senator John Russell, Senator John Scott

Not pictured: Bob Holden, Ben Russell, Steve Price

October 4, 2000

Dear Members:

On behalf of the board of trustees, I am pleased to present the MOSERS' Summary Annual Financial Report for the fiscal year ended June 30, 2000. This report provides information on the financial status of your retirement system while also highlighting significant changes that occurred during the year.

Investment returns were lower this fiscal year than in prior years, however, the funding level of the Missouri State Employees' Plan (MSEP) increased to 93.1 percent. This is the highest funding level experienced by the plan in the past ten years and is the result of the long-term investment decisions made by the board of trustees in consultation with the investment staff.

The board of trustees continues to be impressed by the work of MOSERS' staff, especially in regard to the preparation that was necessary to implement the Missouri State Employees' Plan 2000 (MSEP 2000), which became effective this fiscal year. The staff maintained a high level of customer service throughout this transition despite the additional work load that was created by such an undertaking.

During the past fiscal year, the board of trustees experienced no turnover. The system is fortunate to be served by such dedicated and experienced individuals, and I am honored to work with them in this capacity.

In closing, I would encourage you to contact MOSERS with any questions you may have regarding this report. If you would like a copy of MOSERS' Comprehensive Annual Financial Report (CAFR) for FY2000, please contact us at:

MOSERS
P.O. Box 209
Jefferson City, MO 65102
(573) 632-6100 (573) 827-1063

Customer service continues to be a top priority - we are committed to providing you with key information regarding the performance of the system.

Sincerely,

Thomas F. Hodges, Chairman
Board of Trustees

MOSERS' Mission

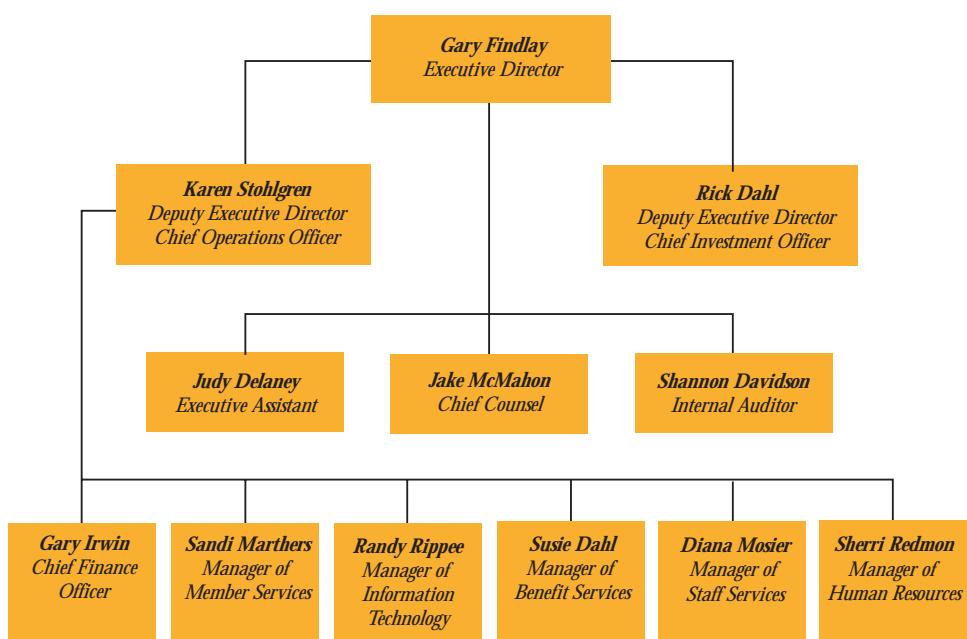
To play an integral role in the future financial security of plan participants by promptly and courteously delivering quality benefits and information which members value and trust through professional plan administration and prudent management of system assets.

Management and Senior Support Staff



Seated left to right: Susie Dahl, Diana Mosier, Gary Findlay, Judy Delaney, Sherri Redmon

Standing left to right: Karen Stohlgren, Randy Rippee, Jake McMahon, Rick Dahl,
Shannon Davidson, Sandi Marthers, Gary Irwin



2000 Legislative Review

On May 30, 2000, Governor Mel Carnahan signed into law House Bill 1808 (HB 1808). Most of the provisions contained in HB 1808 involve minor modifications to and clarifications of the MSEP 2000 enacted last year, and administrative changes to the MSEP. Two of the more substantive changes contained in the legislation, however, modify the basic life insurance provision that currently is in place for most state employees, in addition to allowing members on federal social security disability to also receive a temporary annuity under the MSEP 2000.

HB 1808 contained a provision that will increase the basic life insurance benefit from \$15,000 to one-times annual salary with a \$15,000 minimum effective January 1, 2001. The annual salary used in determining the coverage amount for a calendar year will be the rate in effect as of July 1 of the previous calendar year. Enactment of this provision will complete the last of the recommendations contained in the final report of the Public Safety Retirement Advisory Commission issued in 1998. This benefit enhancement was designed to provide an automatic inflationary adjustment to coverage levels, thus requiring no future legislative changes, and to provide uniformity in coverage among state employees.

HB 1808 also contained a provision that will allow disabled members who are eligible for a temporary annuity to receive such annuity without regard to any prior receipt of federal Social Security Disability Benefits.

An emergency clause that coincides with the effective date of the MSEP 2000 (July 1, 2000) was also incorporated into HB 1808, thus allowing MOSERS to begin administering the new plan with no disruption to our members.

HB 1808 also contained a provision that will allow a present or former judge who is actively serving as a judge or prosecuting attorney, and who has served for ten years, to receive additional credited service for previous public employment with the state covered by another retirement plan, subject to certain restrictions.

Lastly, HB 1808 contained a provision that will allow a retired judge to receive additional COLAs based upon the difference between the judge's current benefit amount and the amount the judge would have received had the retired judge been eligible to accrue COLAs from the earliest date of retirement eligibility.

Investments

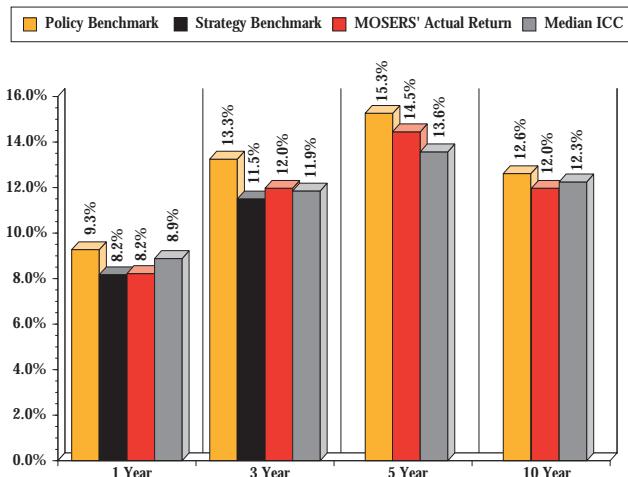
MOSERS is one of the 200 largest employee benefit funds in the United States with total assets in excess of \$5.5 billion. During the year, the asset base grew by approximately \$465 million with the total fund generating returns of 8.2 percent. For the year, the fund spent approximately \$8.4 million for management of the assets, which was approximately \$5.2 million less than the median fund in our peer group.

Total Fund Returns and Benchmark Comparisons

In monitoring performance, the board compares the actual returns generated by the fund to the following three benchmarks: the MOSERS' Policy Benchmark, the MOSERS' Strategy Benchmark, and the median return generated by a peer group of public pension funds.

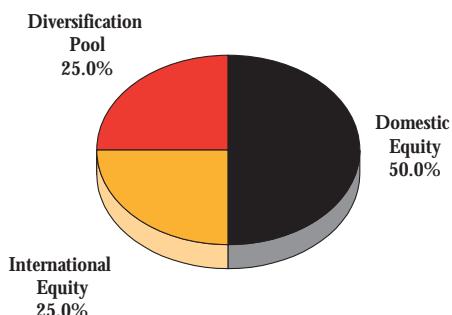
- ◆ The policy benchmark provides an indication of the returns that could be achieved by a portfolio invested passively in the broad market with percentage weights allocated to each asset class in MOSERS' policy asset allocation.
- ◆ The strategy benchmark reflects decisions made by the board to strategically deviate from the broad asset classes. The strategy benchmark focuses on any specific "bets" made relative to the policy benchmark. Examples of strategic decisions in the MOSERS' portfolio would be the overweight to small capitalization and value stocks in the domestic equity portfolio.
- ◆ The Independent Consultants Cooperative (ICC) median public fund return reflects a universe of public pension plans with assets in excess of \$1 billion.

The graph below shows total fund return comparisons for 1-, 3-, 5-, and 10-year periods. Strategy benchmarks were not clearly defined prior to 1995, therefore, five and ten-year strategy benchmark returns are not available.



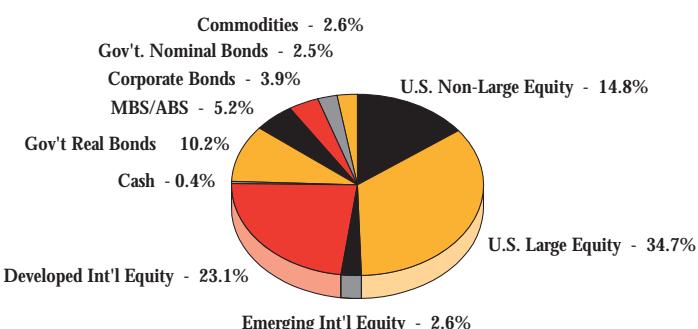
Policy Asset Allocation

MOSERS' assets are divided into the following asset classes: domestic and international equities, and a diversification pool. The resulting portfolio is intended to produce the required real rate of return necessary to fund the pension liabilities within prudent levels of risk. (Real return is the amount by which actual return exceeds the rate of inflation.) The chart below depicts the MOSERS' current policy asset allocation, adopted by the board in March 2000.



Strategy Asset Allocation

Strategic biases within asset classes are employed to enhance long-term returns within each asset class. A strategic decision should be thought of as any decision that might cause MOSERS' actual return to differ from the return of the policy mix. These strategic allocations may subject the fund to higher return volatility over shorter time frames; however, if successful in their purpose, returns will be enhanced. The chart below depicts MOSERS' actual strategy mix as of June 30, 2000.

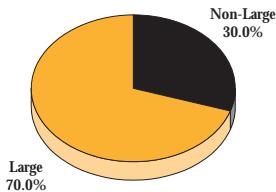


Summary of Domestic Equity

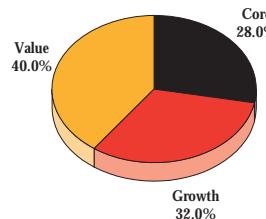
MOSERS maintains a significant allocation to publicly held shares of corporations domiciled in the United States. Domestic equities are held in broadly diversified portfolios, and they represent 50.0 percent of the MOSERS' policy asset allocation.

As of June 30, 2000, the MOSERS' U.S. Stock Portfolio had a market value of \$2.76 billion representing 49.5 percent of the total fund. The graphs below depict the portfolio structure by size and style.

**MOSERS' Domestic Equity Portfolio
(by size)**



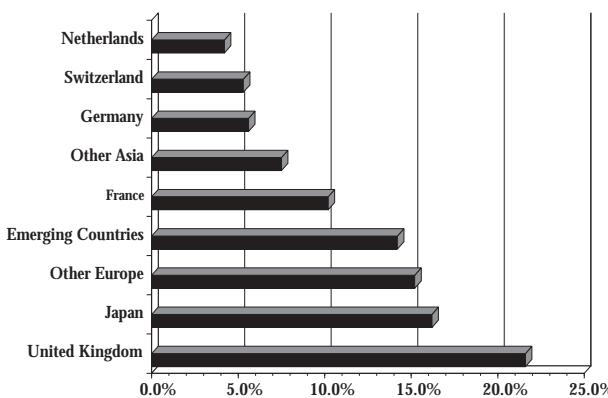
**MOSERS' Domestic Equity Portfolio
(by style)**



Summary of International Equity

International stocks represent 25.0 percent of the MOSERS' policy asset allocation. By incorporating international stocks into the asset mix, MOSERS expects to achieve overall equity returns which are comparable to that of a U.S. stock portfolio while reducing overall portfolio risk, through diversification.

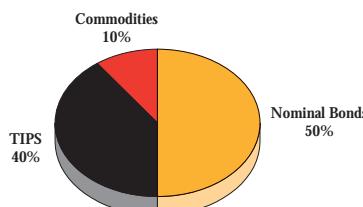
As of June 30, 2000, the MOSERS' International Stock Portfolio had a market value of \$1.44 billion representing 25.7 percent of the total fund. The country weights of the international portfolio are shown in the graph below.



Summary of Diversification Pool

The diversification pool, with a target allocation of 25.0 percent, serves to offset or dampen the equity risk component within the fund. The pool is primarily comprised of nominal bonds or traditional fixed income instruments, real return bonds or TIPS¹ and a commodities exposure. All three of these security classes have exhibited consistently low, and at times, even negative correlations to equities over long periods of time, a factor which provides excellent diversification properties to the fund's 75 percent allocation to equities. There is a small amount of residual cash.

As of June 30, 2000, the MOSERS' Diversification Pool Portfolio had a market value of \$1.37 billion, representing 24.8 percent of the total fund. The pie chart below depicts the targets for the assets in the diversification pool.



¹ "TIPS" is an acronym for Treasury Inflation Protected Securities. These securities are a "full faith and credit" guarantee of the U.S. Government. They pay lower rates of interest, but the bondholder is protected against inflation for the life of the bond by means of a mechanism that adjusts the maturing principal amount of the bond higher, according to changes in the consumer price index.

Actuarial

Fund Determined Sound

Gabriel, Roeder, Smith & Company, MOSERS' actuarial consultant, performed the annual actuarial valuations and determined that MOSERS' assets cover approximately 89.6 percent of the actuarial accrued liabilities (MSEP 93.1 percent, Administrative Law Judges and Legal Advisors' Plan 79.8 percent, Judicial Plan 5.7 percent) - a strong reserve position for all funds combined. It should be noted that the Judicial Plan did not begin actuarial funding until 1999.

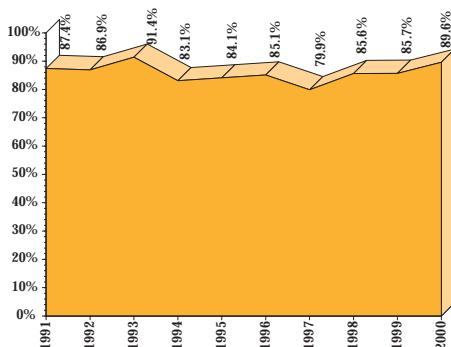
On June 30, 2000, the total accrued liability for the MSEP was \$5.92 billion, an increase of approximately 7 percent over 1999. A pension plan's accrued liability is the current value of future promised benefit payments based on service rendered to date. On June 30, 2000, this liability was \$.41 billion over the actuarial value of assets of \$5.51 billion. The funding level for the MSEP increased from 89.2 percent to 93.1 percent during the year.

What do these figures mean? Comparing assets to accrued liabilities is a good way to measure the strength of a retirement plan. This comparison shows a plan's ability to pay projected benefits with today's dollars. According to MOSERS' actuarial consultant, the plan is strong and sound.

Statistical

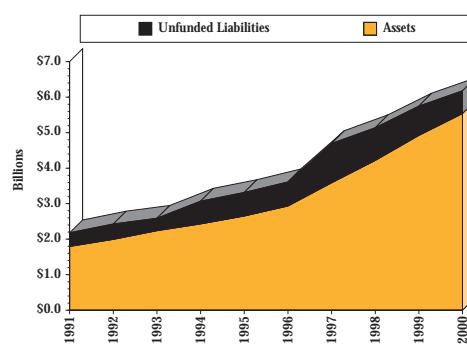
**Valuation Assets as Percents
of Pension Liabilities**

Ten Years Ended June 30, 2000

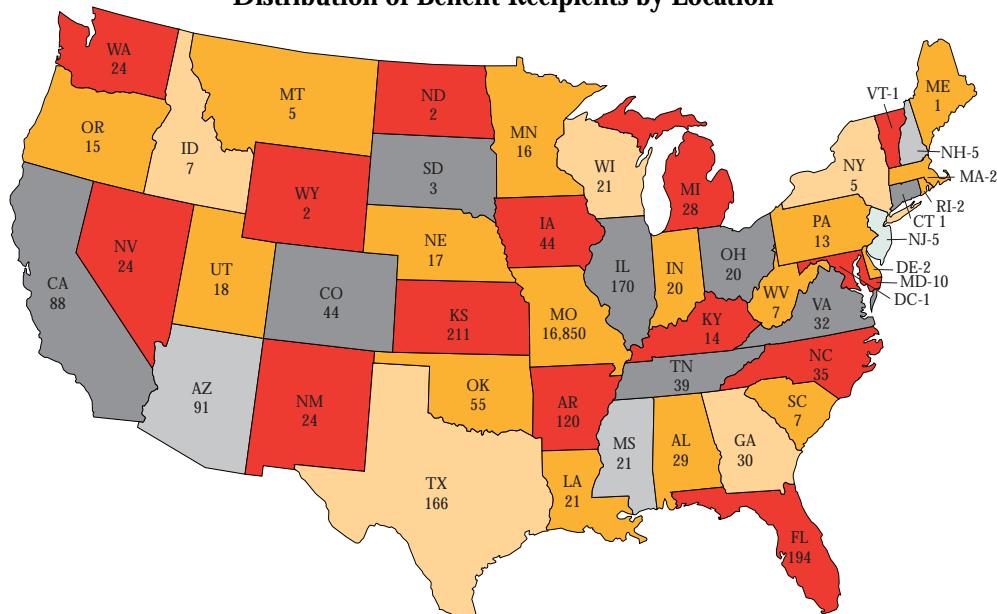


**Pension Trust Funds
Actuarial Accrued Liabilities**

Ten Years Ended June 30, 2000



Distribution of Benefit Recipients by Location



Recipients outside the continental United States include:

Alaska - 5

Argentina - 1

Columbia, South America - 1

England - 1

Germany - 1

Hawaii - 2

Ireland - 1

Israel - 1

Mexico - 2

New Zealand - 1

Puerto Rico - 1

South Korea - 1

Sweden - 1

United Kingdom - 2

Financial Statements

Missouri State Employees' Retirement System

Statements of Plan Net Assets

Pension Trust Funds

As of June 30, 2000

	Missouri State Employees' Plan	Administrative Law Judges and Legal Advisors' Plan	Judicial Plan	Total (Memorandum Only)
Assets				
Cash and short-term investments	\$ 80,495,437	\$ 192,076	\$ 173,740	\$ 80,861,253
Receables				
State contributions	16,484,291	70,474	1,691,954	18,246,719
Investment income	24,845,752	59,286	53,627	24,958,665
Investment sales	189,424,463	451,999	408,851	190,285,313
Other	1,090,362	2,602	2,353	1,095,317
Total receivables	231,844,868	584,361	2,156,785	234,586,014
Investments at fair value				
U.S. Treasury securities	714,280,842	1,704,397	1,541,692	717,526,931
Corporate bonds	241,818,806	577,021	521,938	242,917,765
Government bonds &				
gov't mortgage-backed securities	285,637,011	681,579	616,514	286,935,104
Real estate equity	6,779,192	16,176	14,632	6,810,000
Common stock	2,671,745,395	6,375,244	5,766,652	2,683,887,291
International EAFE index fund	423,750,466	1,011,141	914,616	425,676,223
Preferred stock	1,493	4	3	1,500
Venture capital	368,756	880	796	370,432
Closed-end real estate fund	21,225	51	46	21,322
Collateralized mortgage obligation	33,096,314	78,974	71,435	33,246,723
Foreign currency	17,511,828	41,786	37,797	17,591,411
International equities	1,022,939,127	2,440,909	2,207,895	1,027,587,931
U.S. dollar-denominated				
international corporate bonds	31,042,282	74,072	67,001	31,183,355
Total investments	5,448,992,737	13,002,234	11,761,017	5,473,755,988
Securities lending collateral	864,114,366	2,061,926	1,865,090	868,041,382
Fixed Assets				
Land	266,077	635	574	267,286
Building and building improvements	3,122,317	7,450	6,739	3,136,506
Furniture, fixtures, and equipment	1,794,269	4,281	3,873	1,802,423
	5,182,663	12,366	11,186	5,206,215
Accumulated depreciation	(1,122,777)	(2,679)	(2,423)	(1,127,879)
Total fixed assets	4,059,886	9,687	8,763	4,078,336
Prepaid expenses and other	62,138	148	134	62,420
Total assets	6,629,569,432	15,850,432	15,965,529	6,661,385,393
Liabilities				
Administrative expense payables	2,584,739	6,168	5,579	2,596,486
Investment purchases	212,090,474	506,084	457,773	213,054,331
Securities lending collateral	864,114,366	2,061,926	1,865,090	868,041,382
Real estate security deposits	54,665	130	118	54,913
Employee vacation and overtime liability	210,472	502	454	211,428
Total liabilities	1,079,054,716	2,574,810	2,329,014	1,083,958,540
Net assets held in trust for pension benefits	\$ 5,550,514,716	\$ 13,275,622	\$ 13,636,515	\$ 5,577,426,853

Note: The financial data in this report is derived from MOSERS' CAFR which is presented in conformity with generally accepted accounting principles. Due to space limitations, the financial statements and accompanying notes of the internal service fund (which provides life insurance and long-term disability benefits for state employees) are not included in this report.

Financial Statements

**Missouri State Employees' Retirement System
*Statements of Changes in Plan Net Assets
Pension Trust Funds***
Year Ended June 30, 2000

	Missouri State Employees' Plan	Administrative Law Judges and Legal Advisors' Plan	Judicial Plan	Total (Memorandum Only)
Additions				
Contributions				
State contributions	\$ 202,330,547	\$ 807,022	\$ 19,988,676	\$ 223,126,245
Member purchases of service credit	1,991,206	0	0	1,991,206
Service transfer contributions	3,468,697	0	0	3,468,697
Total contributions	207,790,450	807,022	19,988,676	228,586,148
Investment income				
<i>From investing activities</i>				
Net appreciation in fair value of investments	201,322,605	480,390	434,531	202,237,526
Interest	160,966,761	384,094	347,428	161,698,283
Dividends	47,790,311	114,036	103,150	48,007,497
Other	734,727	1,753	1,586	738,066
Total investing activity income	410,814,404	980,273	886,695	412,681,372
Investing activity expenses:				
Management fees	(7,312,695)	(17,449)	(15,784)	(7,345,928)
Custody fees	(723,654)	(1,727)	(1,562)	(726,943)
Consultant fees	(216,207)	(516)	(467)	(217,190)
Performance measurement fees	(56,995)	(136)	(123)	(57,254)
Portfolio transition/rebalancing cost	(137,012)	(327)	(296)	(137,635)
Internal investment activity expenses	(1,040,120)	(2,482)	(2,245)	(1,044,847)
Miscellaneous expense	(4,472)	(11)	(10)	(4,493)
Total investing activity expenses	(9,491,155)	(22,648)	(20,487)	(9,534,290)
Net income from investing activities	401,323,249	957,625	866,208	403,147,082
<i>From securities lending activities</i>				
Securities lending income	5,003,978	11,940	10,801	5,026,719
Securities lending expenses:				
Borrower rebates	(3,101,625)	(7,401)	(6,694)	(3,115,720)
Management fees	(346,919)	(828)	(749)	(348,496)
Total securities lending activities expenses	(3,448,544)	(8,229)	(7,443)	(3,464,216)
Net income from securities lending activities	1,555,434	3,711	3,358	1,562,503
Total net investment income	402,878,683	961,336	869,566	404,709,585
Miscellaneous income	629,924	1,503	1,360	632,787
Total additions	611,299,057	1,769,861	20,859,602	633,928,520
Deductions				
Benefits	171,528,074	755,574	13,292,188	185,575,836
Benefit adjustments	8,162,748	0	0	8,162,748
Service transfer payments	18,609	0	0	18,609
Contribution refunds	889	0	0	889
Administrative expenses	5,487,531	13,094	11,844	5,512,469
Total deductions	185,197,851	768,668	13,304,032	199,270,551
Net increase	426,101,206	1,001,193	7,555,570	434,657,969
Net assets held in trust for pension benefits				
Beginning of year	\$ 5,124,413,510	\$ 12,274,429	\$ 6,080,945	\$ 5,142,768,884
End of year	\$ 5,550,514,716	\$ 13,275,622	\$ 13,636,515	\$ 5,577,426,853

Note: The financial data in this report is derived from MOSERS' CAFR which is presented in conformity with generally accepted accounting principles. Due to space limitations, the financial statements and accompanying notes of the internal service fund (which provides life insurance and long-term disability benefits for state employees) are not included in this report.

Outstanding Achievement in Popular Annual Financial Reporting



The Government Finance Officers Association of the United States and Canada (GFOA) presented an Award for Outstanding Achievement in Popular Annual Financial Reporting to MOSERS for its summary annual report for the fiscal year ended June 30, 1999. This prestigious national award recognizes popular reports for creativity, presentation, understandability and reader appeal, and is valid for a period of one year. We believe the current summary annual report continues to meet these program standards and we are submitting it to GFOA for evaluation.

Alternative format available upon request.

To request an alternative format, please call the personnel officer
of MOSERS at 573-632-6100 or 800-827-1063.

Missouri relay numbers are: 800-735-2466 (Voice) or 800-735-2966 (TDD).

MOSERS is an equal opportunity employer.



**Missouri State Employees'
Retirement System**
P.O. Box 209
Jefferson City, MO 65102

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